

NEDLT Newsletter

From the Desk of Bob Gray

• Milk Pricing Options

Below is a list of potential options for enhancing farm milk prices in the Northeast. In some cases they are designed to effect milk prices nationwide. And there may be other options that are not on this list.

1. Enhancing the Current MILC Program:

Background and comment: The new MILC monthly payments will be calculated at 45% of the percentage increase between the cost of feed for milk production and the base MILC trigger of \$16.94. When the MILC program feed adjustor budget costs were being run by the Congressional Budget Office (CBO) last spring this reduction in the percentage increase was put in place to reduce the cost of the program and keep it in line with CBO estimates for the overall cost of the dairy program. Increasing that percentage back to 100% would more than double MILC payments. However, it would also add additional federal costs to the program. The 45% figure is often confused with the MILC payment utilization rate of 45% on Class I milk but they are two entirely different items.

2. State Efforts on Over Order Premiums:

Background and comment: We discussed this last Friday. If the PMMB makes a decision to include over order premiums on milk shipped into New Jersey, then the dairy cooperatives in New York State could petition the Commissioner to approve over order premiums for dairy producers in the Empire State. Although a number of Northeastern states have the authority to approve over order premiums most attorneys agree that a larger effort by several states in the region to move in concert on establishing over order premiums would not withstand legal challenges.

3. The Northeast Interstate Dairy Compact:

Background and comment: Established as a three year pilot program for the six New England States in the 1996 Farm Bill, the Compact Commission officially established an over order price on Class I milk in July of 1997 at \$16.94 per hundredweight (sound familiar). The Compact was

extended for two more years in 1999 and it sunsetted on September 30, 2001. During its' five years of operation it paid about \$160 million in over order premiums to New England dairy producers and New York producers who shipped their milk into New England. It withstood two major legal challenges by processors regarding the authority of the Compact Commission to regulate fluid milk from other states coming into the New England region. By 2001 premiums to dairy producers were becoming diluted as milk was being trucked into New England then being reloaded in order to qualify for the premiums. There is general agreement that a Northeast Dairy Compact will not be effective in the future unless the two big dairy states of New York and Pennsylvania are part of it. It would take new legislation to ratify the Compact.

4. Utilizing the Federal Milk Marketing Orders to secure an over order price:

Background and comment: There are a number of variations in this approach and they include:

a.) Requiring that USDA include a cost of production calculation in determining the minimum price of Class I milk. USDA's Agricultural Marketing Service believes the purpose of the FMMO minimum price calculation is to clear the market and it is not intended to include a cost of production calculation. The current FMMO law could be changed to explicitly include a "cost of production" requirement in the minimum federal price calculation.

b.) Pooling Class I receipts: This was discussed last spring during the teleconference with the dairy cooperatives. The idea was to create a "new pool" of higher Class I receipts and share those additional monies with the upper Midwest or partially share them or keep all new pool dollars within the individual federal orders based on their Class I utilization rates. This would take additional legislation to accomplish. This idea was put forth as an alternative to establishing a feed adjustor to the MILC program only. Any over order premium generated by this approach would pay on all milk produced on a dairy farm and would not be capped at 2.985 million pounds of annual production as the MILC program currently is.

5. The National Dairy Equity Act (NDEA):

Background and comment: Initially introduced in the 108th Congress by Congressmen Tom Reynolds and John McHugh of New York, Bernie Sanders of Vermont and Dave Obey of Wisconsin, it would establish five Regional Dairy Marketing Areas in the Northeast, South, Midwest, Rocky Mountains and the Western Coastal states. The Regional Boards would be given the authority to establish an over order price on Class I milk in their respective regions. The trigger price was capped at \$17.50 per hundred weight and the Class I payment utilization rate was established at 50% for all regions. NDEA payments came from two sources. Processors in each region would provide the bulk of the payments. However, the federal government, through the Commodity Credit Corporation, would provide additional payments to those regions of the country such as the Midwest where Class I utilization is below 20% in order to ensure each region received the same level of receipts. The Regional Dairy Boards were given broad powers to implement supply management programs.

The NDEA was introduced again in the 109th Congress but was not re-introduced in the 110th session.

6. Cooperatives Working Together:

Background and comment: This private program by the dairy industry was established by National Milk Producers Federation in 2003. Participating dairy producers voluntarily contribute 10 cents a hundredweight to a fund that retires dairy herds and subsidizes exports of dairy products. They have had several herd buy-outs since the program has been put in place and have generated additional exports of dairy products. A recent analysis of the program by economist Scott Brown at the University of Missouri found that CWT enhanced farm milk prices by 69 cents per hundredweight. NMPF is in the midst of a buy-out right now. Currently just about 70% of the milk produced in the U.S. is covered by the 10 cent assessment required to participate in the program. A big hole in the lineup is the Midwest and Wisconsin in particular where the participation rate is very low.

There may be other options that I have missed but at least this is a starting point for options that have either been implemented or offered in the past.